

VERMONT ENERGY INVESTMENT CORPORATION

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
JUNE 30, 2005 AND 2004**

VERMONT ENERGY INVESTMENT CORPORATION

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Wallace W. Tapia, P.C.

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Independent Auditor's Report

To the Board of Directors of
Vermont Energy Investment Corporation
Burlington, VT

We have audited the accompanying statements of financial position of Vermont Energy Investment Corporation (a nonprofit organization) as of June 30, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Energy Investment Corporation as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The supplementary information on page 12 is presented for purposes of additional analysis and is not a required part of the above financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements referred to above and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Wallace W. Tapia, P.C.

Burlington, Vermont
September 2, 2005
Vermont Registration #333

VERMONT ENERGY INVESTMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION – JUNE 30, 2005 AND 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents (Notes 1, 4 and 8)	\$ 1,504,696	\$ 1,613,880
Accounts receivable, net of allowance for doubtful accounts (Note 1)	1,588,997	1,676,187
Inventory (Note 1)	35,955	44,504
Current portion of notes receivable (Note 5)	50,000	-
Other current assets	57,123	45,101
Total current assets	<u>3,236,771</u>	<u>3,379,672</u>
Property and equipment, net of accumulated depreciation (Notes 2 and 6)	<u>484,897</u>	<u>549,649</u>
Other assets:		
Notes receivable, less current portion above (Note 5)	<u>50,000</u>	<u>50,000</u>
Total other assets	<u>50,000</u>	<u>50,000</u>
Total assets	<u>\$ 3,771,668</u>	<u>\$ 3,979,321</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 816,498	\$ 946,055
Accrued expenses	698,616	572,992
Refundable advances - grants (Note 1)	10,816	7,847
Deferred contract income (Note 1)	125,902	409,740
Line of credit (Note 6)	125,000	-
Total current liabilities	<u>1,776,832</u>	<u>1,936,634</u>
Long-term liabilities:		
Farm loan guarantees (Note 8)	<u>36,222</u>	<u>22,653</u>
Total long-term liabilities	<u>36,222</u>	<u>22,653</u>
Total liabilities	<u>1,813,054</u>	<u>1,959,287</u>
Net assets: (Note 1)		
Unrestricted	1,958,614	2,020,034
Temporarily restricted	-	-
Permanently restricted	-	-
Total net assets	<u>1,958,614</u>	<u>2,020,034</u>
Total liabilities and net assets	<u>\$ 3,771,668</u>	<u>\$ 3,979,321</u>

The accompanying notes to financial statements are an integral part of these financial statements.

VERMONT ENERGY INVESTMENT CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

REVENUE AND SUPPORT:	<u>2005</u>	<u>2004</u>
Energy Efficiency Utility contract income (Notes 1, 4, 8 and 9)	\$ 14,963,661	\$ 13,551,894
Program service revenue	2,041,564	1,501,756
Grants	114,537	39,655
Interest income	<u>10,087</u>	<u>7,423</u>
Total revenue and support	<u>17,129,849</u>	<u>15,100,728</u>
 EXPENSES AND LOSSES:		
Program services:		
Energy Efficiency Utility expenses (Note 1)	13,916,632	12,748,409
Energy efficiency implementation services	161,785	159,767
General consulting projects	1,625,055	1,082,033
Other program expenses	149,510	139,897
Supporting services:		
Management and general	1,338,287	816,194
Fundraising expenses	<u>-</u>	<u>-</u>
Total expenses and losses	<u>17,191,269</u>	<u>14,946,300</u>
Change in unrestricted net assets	(61,420)	154,428
 UNRESTRICTED NET ASSETS, beginning of year	<u>2,020,034</u>	<u>1,865,606</u>
 UNRESTRICTED NET ASSETS, end of year	<u>\$ 1,958,614</u>	<u>\$ 2,020,034</u>

The accompanying notes to financial statements are an integral part of these financial statements.

VERMONT ENERGY INVESTMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ (61,420)	\$ 154,428
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	190,040	203,534
(Increase) decrease in accounts receivable	87,190	358,761
(Increase) decrease in grants receivable	-	-
(Increase) decrease in inventory	8,549	16,034
(Increase) decrease in other current assets	(12,022)	(4,723)
Increase (decrease) in accounts payable	(129,557)	(164,752)
Increase (decrease) in accrued expenses	125,624	24,984
Increase (decrease) in farm loan guarantees	13,569	22,653
Increase (decrease) in deferred income and refundable advances	(280,869)	372,287
Net cash provided by (used in) operating activities	<u>(58,896)</u>	<u>983,206</u>
Cash flows from financing activities:		
Advances on line of credit	1,615,000	1,795,000
Repayments of line of credit	<u>(1,490,000)</u>	<u>(2,220,000)</u>
Net cash provided by (used in) financing activities	<u>125,000</u>	<u>(425,000)</u>
Cash flows from investing activities:		
Disbursements on notes receivable	(50,000)	-
Acquisition of fixed assets	<u>(125,288)</u>	<u>(42,671)</u>
Net cash provided by (used in) investing activities	<u>(175,288)</u>	<u>(42,671)</u>
Net increase / (decrease) in cash	(109,184)	515,535
Cash at beginning of year	<u>1,613,880</u>	<u>1,098,345</u>
Cash at end of year	\$ <u><u>1,504,696</u></u>	\$ <u><u>1,613,880</u></u>
Supplemental Data:		
Interest paid	\$ 1,810	\$ 2,933

The accompanying notes to financial statements are an integral part of these financial statements.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Note 1 - Summary of Significant Accounting Policies:

Nature of the Organization

Vermont Energy Investment Corporation ("VEIC") is a not-for-profit Vermont corporation formed in 1986 with a mission of "reducing the costs, both monetary and environmental, of energy use". VEIC's efforts include direct energy efficiency services, energy-efficiency and renewable energy program design, and energy-efficiency and renewable energy training, research and advocacy. As discussed below, VEIC operates the "Energy Efficiency Utility" for the State of Vermont under contract to the State Public Service Board and provides services under the name Efficiency Vermont.

Basis of Accounting

The financial statements of the VEIC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

VEIC follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

VEIC has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions.

Restricted and Unrestricted Support

Contributions and grants that are restricted by the donor (either by time or purpose) are recorded as increases in *unrestricted* net assets if the restrictions expire (that is when a stipulated time restriction ends or a purpose restriction is accomplished) in the same reporting period in which the revenue is recognized. All other donor-restricted contributions, if any, are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Conditional promises to give are not included in support until the conditions have been substantially met.

Income Taxes

VEIC is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code, and is classified as a publicly supported organization under Section 509(a)(2). In addition, contributions to the Organization qualify for the charitable contribution deduction under Internal Revenue Code Section 170(b)(1)(A).

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Note 1 - Summary of Significant Accounting Policies: (continued)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, VEIC considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents.

Inventory

Inventory consists of energy-efficient products such as compact fluorescent lights and is valued at the lower of cost or market using the first-in, first-out method.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value of Financial Instruments

Vermont Energy Investment Corporation's financial instruments, none of which are held for trading purposes, include cash, accounts and notes receivable, and notes payable. As of June 30, 2005 and 2004, the Organization estimates that the fair value of all its financial instruments does not materially differ from the aggregate carrying value recorded on the Statements of Financial Position.

Deferred Revenue and Refundable Advances

Deferred contract income represents amounts received in advance for contract services to be performed in future periods. Refundable advances represent contributions received under cost-reimbursable grants that are conditioned upon the Organization incurring certain qualifying expenses. Deferred revenue at June 30, 2005 primarily relates to the Vermont's Solar and Small Wind Renewable Energy Development Program that began on April 20, 2004.

Accounts Receivable

Accounts receivable represent outstanding amounts due from customers, net of an allowance for doubtful accounts (\$4,000 at both June 30, 2005 and 2004). The allowance is based on management's experience. Amounts are charged off as uncollectible when management determines that the receivable will not be collected.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Note 1 - Summary of Significant Accounting Policies: (continued)

Description of Programs

A description of the major programs included in these financial statements is as follows:

Energy Efficiency Utility

On March 1, 2000, Vermont Energy Investment Corporation was awarded a three-year, \$28 million contract from the Vermont Public Service Board to centrally manage the state's core energy efficiency programs as Vermont's "Energy Efficiency Utility" ("EEU"). In November of 2002, VEIC and the Public Service Board signed a \$45 million, 40-month extension of this contract through May 1, 2006. Funded by mandatory charges on electric bills, the EEU helps Vermont businesses, households and farms reduce their energy use with energy efficient lighting, appliances, equipment and buildings. VEIC is reimbursed monthly for the actual costs of operating the program, including allocated indirect costs, plus a fee of 1.45%. If VEIC meets specific performance targets, it can earn performance incentives of up to \$1,280,000 over the life of the current contract period from January 1, 2003 through December 31, 2005.

Energy Efficiency Implementation Services

VEIC provides direct energy efficiency implementation services to individual homeowners, businesses and institutions. The types of services primarily consist of energy audits, diagnostics, training, home energy ratings, contract management and financing assistance.

General Consulting

VEIC provides national and international consulting services to consumer and environmental organizations, electric and gas utilities, and other clients, for energy efficiency and renewable energy activities.

Note 2 - Property and Equipment:

Property and equipment consist of the following as of June 30:

	<u>2005</u>	<u>2004</u>
Leasehold improvements	\$ 692,466	\$ 670,598
Computers and software	659,312	611,042
Furniture, fixtures and office equipment	157,770	122,938
Subtotal	<u>1,509,548</u>	<u>1,404,578</u>
Less - accumulated depreciation	<u>(1,024,651)</u>	<u>(854,929)</u>
Net property and equipment	<u>\$ 484,897</u>	<u>\$ 549,649</u>

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Note 2 – Property and Equipment: (continued)

Fixed assets are recorded on the balance sheet at cost. Expenditures for maintenance and repairs are charged against operations. Betterments that materially extend the life of the assets are capitalized.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets and amounted to \$190,040 and \$203,534 for the years ended June 30, 2005 and 2004, respectively. The estimated useful lives of depreciable assets are as follows:

	<u>Estimated Useful Lives</u>
Leasehold improvements	6 -10 years
Computers and software	3 -5 years
Furniture, fixtures and office equipment	3-7 years

Note 3 – Operating Leases:

Vermont Energy Investment Corporation leases office space in Burlington, Vermont under two noncancelable leases that expire December 31, 2005 and 2011. VEIC does have the option, with certain restrictions, to reduce the leased area based on reductions in funding. Total lease expense under this lease and certain other month-to-month leases for the years ended June 30, 2005 and 2004 was \$239,253 and \$230,973 respectively. Future minimum lease payments (not including property tax escalators) under the noncancelable leases for years ending June 30 are:

2006	\$	203,400
2007		173,280
2008		177,000
2009		182,940
2010		187,800
Thereafter:		290,040
	\$	<u>1,214,460</u>

Note 4 – Concentrations:

Concentration of Cash on Deposit

VEIC has concentrated its credit risk by maintaining deposits in financial institutions that exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Note 4 – Concentrations: (continued)

Concentration of Revenue

As discussed in Note 1, pursuant to an agreement dated March 1, 2000, VEIC is contracted to provide the services of the Energy Efficiency Utility for the State of Vermont. Revenue from this contract represented 87% and 90% of the Organization's total revenues for the fiscal years ended June 30, 2005 and 2004, respectively. Accounts receivable balances due under the EEU contract totaled approximately \$1,139,000 and \$1,211,000 as of June 30, 2005 and 2004, respectively.

Note 5 – Notes Receivable:

Notes receivable consisted of the following as of June 30:

	<u>2005</u>	<u>2004</u>
\$50,000 Loan to Vermont Community Loan Fund dated September 1996 (actually five \$10,000 notes with staggered original maturities from August 1997 through August 2002.) All notes have been, and continue to be, extended as they come due; interest payable annually at rates ranging from 2% to 3%.	\$ 50,000	\$ 50,000
\$50,000 Loan to the Energy Cooperative of Vermont dated April 2005; Interest payable monthly at .5% over prime (6.75% at June 30, 2005); due in full September 2005.	50,000 <u>100,000</u>	<u>-</u> 50,000
Less current portion	(50,000) <u>\$ 50,000</u>	<u>-</u> <u>\$ 50,000</u>

Note 6 – Line of Credit:

Line of credit consisted of the following as of June 30:

	<u>2005</u>	<u>2004</u>
\$2,000,000 Line of Credit with the Chittenden Bank dated January 2003; interest at Prime less .25% to a minimum of 4.0% (6.0% and 4.0% at June 30, 2005 and 2004, respectively) payable monthly; due in full May 2006; secured by substantially all of borrower's assets.	\$ 125,000 <u>125,000</u>	\$ - <u>-</u>
Less current portion	(125,000) <u>\$ -</u>	<u>-</u> <u>\$ -</u>

Interest expense on the above loan totaled \$1,810 and \$2,933 during the years ended June 30, 2005 and 2004, respectively. VEIC also has a \$300,000 line of credit with the Chittenden Bank dated November 1999, but has not drawn on it in either fiscal year 2004 or 2005.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Note 7 – Pension Plan:

VEIC maintains a 403(b) tax-sheltered annuity pension plan that covers substantially all employees. There are no minimum age or service requirements for employees to make contributions to the plan. For full-time employees who have completed a minimum term of service, the Organization makes employer contributions of between 2% and 6% of the employee's compensation depending on length of service. Pension expense for the years ended June 30, 2005 and 2004 was \$197,587 and \$163,038, respectively.

Note 8 – Contingencies and Commitments:

Performance-Based Contract

VEIC is currently engaged in one performance-based contract with a public housing authority. This agreement calls for VEIC to manage the installation and oversee the operation of energy efficiency improvements and to guarantee the public housing authority a minimum level of energy savings. In the event the savings realized by the public housing authority does not meet the minimum guaranteed amounts, VEIC could be called upon to make up the difference between the actual energy savings and the guaranteed amounts. To date, these payments have been immaterial and therefore management has elected not to establish an allowance or reserve for any such contingency.

"New Energy Futures" Joint Marketing Agreement

In 1996, VEIC entered into a joint marketing agreement with Optimal Energy, Inc. ("OEI"), an unrelated, Bristol, Vermont-based, for-profit energy consulting company. Under the agreement, generally all energy efficiency consulting ("non-implementation") work entered into by either of the parties will be considered "New Energy Futures" ("NEF") work. Total NEF revenue was approximately \$1.6 and \$1.7 million for the fiscal years ended June 30, 2005 and 2004, respectively, with VEIC being the prime contractor on approximately one-third of the billings and OEI being the prime contractor on the remainder. Under the agreement, VEIC and OEI charge agreed upon labor costs (including related payroll taxes and fringe benefits) for the NEF work they perform plus allocated indirect costs at agreed-upon hourly rates. Net profit on all NEF jobs is split between VEIC and OEI based on mutually agreed percentages. For the years ended June 30, 2005 and 2004, total NEF revenue recognized by VEIC was approximately \$960,000 and \$930,000, respectively, including approximately \$380,000 and \$400,000 of subcontractor billings and shared profit on NEF jobs where OEI was the prime contractor.

"Central Partners" in the Energy Efficiency Utility Contract

VEIC has recognized Conservation Services Group ("CSG", an unrelated, Massachusetts-based, not-for-profit corporation) and Optimal Energy, Inc. as "Central Partners" with VEIC on the EEU contract – entities whose participation in the contract VEIC considers important for its success. With OEI taking the leadership in program planning and design and CSG with responsibilities in residential energy services, their estimated billings for labor (at agreed-upon hourly rates not including advertising buys and other non-labor costs) represent approximately 4% of total estimated EEU costs of approximately \$45 million over the life of the current contract (23% of total sub-contracted labor). An agreement between the three central partners called for any performance incentive payments (as discussed in Notes 1 and 9) earned by VEIC under the original \$28 million EEU contract to be split between the three Central Partners based upon mutually-agreed percentages. An agreement between VEIC and OEI calls for any performance incentive payments earned by VEIC under the current \$45 million EEU contract to be split between VEIC and OEI based on mutually agreed percentages.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Note 8 – Contingencies and Commitments (continued):

Efficiency Vermont Financing for Farms

As part of VEIC's role as Vermont's "Energy Efficiency Utility" (as discussed in Note 1), the organization has agreed to guarantee loans made to Vermont farmers for the purchase of energy efficiency improvements. The loans are underwritten and serviced by the Opportunities Credit Union (OCU). VEIC as guarantor, maintains a loan loss reserve in escrow with OCU representing 50% of the EEU loan portfolio and 100% of certain loans as decided by VEIC. As stipulated in the agreement, VEIC has sole discretion to provide a reserve equaling 100% of the loan balance where OCU could not otherwise qualify the loans. The agreement also requires VEIC to "buy down" the interest rate to 0.00% on loans with terms of up to 24 months, and to 2.00% on loans with terms from 25 to 48 months. All funds used to prepay interest and maintain the loss reserve are provided through the EEU. Once a loan is paid in full, the related reserve funds must be accounted for under the terms of that program. As of June 30, 2005, and 2004, the balance held in escrow totaled \$36,222 and \$22,653, respectively, amounts included in cash and cash equivalents on the Statements of Financial Position with corresponding amounts recognized as a long-term liabilities.

Note 9 – EEU Contract Incentives Earned

As of June 30, 2005 and 2004, no incentives have been earned on the contract that ends May 1, 2006.

Note 10 – Subsequent Event

As the result of a competitive bidding process completed in June 2005, VEIC was notified in July 2005 it was the "party that the Public Service Board has chosen to enter into contract negotiations with" related to the EEU contract for the period 1/1/06 through 12/31/08 (with a potential option to renew for an additional three years).

VERMONT ENERGY INVESTMENT CORPORATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005
(With Summarized Information for 2004)

	EEU	Energy Efficiency Implementation Services	General Consulting Projects	Other Projects	Total Program Expenses	Management & General	Fundraising	2005 TOTAL	2004 TOTAL
	Contract								
Salaries, benefits and payroll taxes	\$4,146,406	\$62,787	\$503,138	\$32,915	\$4,745,246	\$1,057,857	-	\$5,803,103	\$5,125,245
Subcontractors and consultants	2,467,100	38,332	288,419	71,480	2,865,331	103,384	-	2,968,715	2,964,119
Incentive payments and rebates	5,847,980	-	660,936	-	6,508,916	-	-	6,508,916	5,290,852
Materials and product cost	180,887	3,761	5,298	2,182	192,128	577	-	192,705	130,157
Telephone	46,135	576	9,328	772	56,811	4,527	-	61,338	61,124
Travel	185,319	9,440	66,946	4,047	265,752	7,357	-	273,109	193,124
Copying and printing	196,663	34,672	9,074	774	241,183	30,641	-	271,824	319,368
Postage and shipping	43,901	2,888	3,154	329	50,272	3,265	-	53,537	52,085
Conferences and memberships	336,520	987	22,774	9,383	369,664	15,796	-	385,460	192,307
Office expenses	32,682	495	3,966	259	37,402	6,236	-	43,638	36,543
Maintenance & repairs	23,678	359	2,873	188	27,098	4,518	-	31,616	20,897
Insurance	31,986	484	3,881	254	36,605	6,103	-	42,708	38,315
Occupancy	221,632	3,356	26,894	1,759	253,641	42,287	-	295,928	274,719
Grants	-	-	-	23,841	23,841	-	-	23,841	-
Depreciation	146,972	1,873	16,608	982	166,435	23,605	-	190,040	203,534
Interest expense	1,810	-	-	-	1,810	-	-	1,810	2,933
Other expenses	6,961	1,775	1,766	345	10,847	32,134	-	42,981	40,978
	<u>\$13,916,632</u>	<u>\$161,785</u>	<u>\$1,625,055</u>	<u>\$149,510</u>	<u>\$15,852,982</u>	<u>\$1,338,287</u>	<u>\$0</u>	<u>\$17,191,269</u>	<u>\$14,946,300</u>

Wallace W. Tapia, P.C.

Certified Public Accountants

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(802) 863-6370 • Toll free in Vermont (800) 750-4789 • Fax (802) 865-0392

Independent Accountant's Report On Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the management of the Vermont Energy Investment Corporation ("VEIC") and by Michael Wickenden, contract administrator ("the CA") representing the Public Service Board of the State of Vermont pursuant to its Energy Efficiency Utility contract with VEIC dated March 1, 2000 and as amended January 1, 2003 ("the Contract"), solely to assist the users in evaluating management's assertion about VEIC's compliance with requirements of the Contract and on internal control over compliance during the year ended June 30, 2004, included in the accompanying letter from management of equal date. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have audited the financial statements of Vermont Energy Investment Corporation as of and for the year ended June 30, 2005, and have issued our report thereon, dated September 2, 2005.

In the context of the U.S. Office of Management and Budget (OMB) Circular A-133, which requires organizations that expend federal funds in excess of \$500,000 annually to undergo a "Single Audit", the agreed-upon procedures we performed were those procedures *that would have been performed if* 1) the expenditures of funds under the Contract were considered to be federal expenditures, 2) the Contract was a "major program" (as defined by Circular A-133) and 3) the Contract was VEIC's only major program.

Our findings related to management's assertion based on our performance of the agreed-upon procedures were: NONE (We noted no matters that would, in our opinion, have been reported as findings in the "Single Audit" reports as discussed in the accompanying letter from management dated September 2, 2005). However, we noted other matters involving internal control and compliance that we have reported to the management of Vermont Energy Investment Corporation in a separate letter dated September 2, 2005.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of VEIC, the CA and the Public Service Board of the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wallace W. Tapia, P.C.

Burlington, Vermont
September 2, 2005
Vermont Registration #333

October 7, 2005

Wallace W. Tapia, P.C.
P.O. Box 5777
Burlington, VT 05402-5777

Dear Sir/Madam:

We are providing this letter in connection with your performance of certain agreed-upon procedures related to our Energy Efficiency Utility contract with the Public Service Board of the State of Vermont as described in your report of equal date ("the Contract").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of June 30, 2005, and through the date of signing of this letter, the following representations and assertions:

1. We have made available to you all -
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
2. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices related to the Contract.

3. There are no material transactions that have not been properly recorded in the accounting records related to the Contract.
4. There has been no -
 - a. Fraud involving management or employees who have significant roles in internal control.
 - b. Fraud involving others that could have a material effect on the financial information related to the Contract.
5. The following, if any, have been properly recorded or disclosed in the financial records related to the Contract:
 - a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Organization is contingently liable.
6. We are responsible for -
 - a. Compliance with the provisions of the Contract and we have identified and disclosed to you all provisions of the Contract that we believe have a direct and material effect on financial reports related to the Contract.
 - b. Establishing and maintaining effective internal control over financial reporting.
7. For the purposes of maintaining effective internal control over the compliance requirements related to the Contract and for other requirements related to financial management of the Contract, we have treated expenditures under the Contract *as if they were* federal awards and therefore make the following representations and assertions:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."
 - b. We are responsible for complying with the requirements of the Contract and have identified and disclosed to you the requirements that are considered to have a direct and material effect on the Contract.
 - c. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to the Contract that provides reasonable assurance that we are managing it in compliance with those

provisions that could have a material effect on the Contract. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.

- d. We have made available to you the entire Contract (including amendments, if any) and any other relevant correspondence with the contract administrator, fiscal agent or the Public Service Board.
- e. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the "OMB Circular A-133 Compliance Supplement," and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of the Contract, including the results of other audits or reviews.
- f. Amounts claimed were determined in accordance with relevant guidelines in OMB Circular A-122, "Cost Principles for Nonprofit Organizations".
- g. We have disclosed to you our interpretation of compliance requirements that have varying interpretations, if any.
- h. We have made available to you all documentation related to the compliance requirements, including information related to financial reports and claims for reimbursements.
- i. Contract financial reports and claims for reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- k. The copies of Contract financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the applicable party or agency, as applicable.

We understand that you are performing procedures that would have been performed in conjunction with your financial statement audit if 1) the expenditures of funds under the Contract were considered to be federal expenditures, 2) the Contract would be a "major program" (as defined by O.M.B. Circular A-133) and 3) the Contract would be VEIC's only major program. We therefore assert, to the best of our knowledge and belief, that the "Financial Statements" and "Federal Awards" sections of the "Summary of Auditor's Results" that would have been included in the "Single Audit" report for that work would be as follows:

Section I – Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified:

_____yes X no

Reportable conditions(s) identified not
considered to be material weaknesses?

_____yes X none reported

Noncompliance material to financial
statements noted?

_____yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified:

_____yes X no

Reportable conditions(s) identified not
considered to be material weaknesses?

_____yes X no

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are to be
reported in accordance with Circular
A-133, Section .510 (a)

_____yes X no

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to June 30, 2005 and through the date of our signing of this letter that would require adjustment to or disclosure in the aforementioned assertions or representations.

Signed: _____

Beth Sachs
Executive Director

Signed: _____

David Bardaglio
Financial Director